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ABSTRACT

This paper offers a detailed explanation of Yale University's tuition postponement option. The purposes of the Plan are: (1) to enable students to defer part of the expense of education; (2) to enable students to contribute to the support of the University in approximate proportion to their ability to do so and to the economic benefit they have derived from their Yale education; and (3) to help meet Yale's immediate need for increased funds to defray sharply rising costs. The principal elements detailed in this paper are: (1) Yale's plan for increased university charges; (2) the deferment and repayment contracts and their terms; and (3) the allocation of repayments between principal and interest and the deductibility of the interest. During the deferment period, Yale will cover its costs by borrowing from conventional lenders, and the University will seek pledges to share the financial risks of the plan. (AF)

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YALE UNIVERSITY
NEW HAVEN CONNECTICUT

OFFICE OF THE PRESIDENT

To Faculties and Students:

This paper is a more detailed explanation of Yale's tuition postponement option. It represents our latest thinking but is subject to technical changes between now and the time tuition postponement contracts are drafted and offered to interested students and applicants.

Kingman Brewster, Jr.

February 6, 1971

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
OFFICE OF EDUCATION

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YALE UNIVERSITY

Background Detail for Release Morning Papers

February 6, 1971

YALE TUITION POSTPONEMENT OPTION

Yale University intends to adopt a Tuition Postponement Option under which a student would be permitted to defer a substantial part of the charge for his education and pay this cost during his earning years in proportion to his income. The purposes of the Plan are (1) to enable students to defer part of the expense of education, (2) to enable students to contribute to the support of the University in approximate proportion to their ability to do so and to the economic benefit they have derived from their Yale education, and (3) to help meet Yale's immediate need for increased funds to defray sharply rising costs.

The Tuition Postponement Option has four principal elements. First, the University will continue to increase its charges in the College and several of the graduate and professional schools as it has during the recent past. Second, with respect to these increases and with respect to a fraction of existing charges, Yale will permit any student who wishes to do so to enter into a Deferment and Repayment Contract, deferring charges while he is a student and repaying in later years

in proportion to his income. Third, Yale will cover its costs during the deferment period by borrowing from conventional lenders. Fourth, Yale will seek pledges and grants to share the financial risks of the plan.

A. Increased University Charges

Yale plans to increase charges in the College, the Graduate School of Arts and Sciences, the Law School, the Medical School, the Divinity School, and the Schools of Music, Art, Architecture, Drama, Forestry and Nursing.

The present combined charge for tuition, room and board in the College is $3,900. Yale will increase this charge by $500 in 1971-72 and expects a further $300 increase in each of the four subsequent academic years. Of the initial $500 increase, $350 would be attributed to tuition and $150 would be attributed to room and board.

Each of the other schools and departments charges separately for tuition and for room and board. In these schools and departments, Yale plans to increase tuition by $350 in the academic year 1971-72, and by an additional $300 in each of the four academic years thereafter.

B. Deferment and Repayment Contracts

Any student who wishes to pay the full University charges after the projected increases will be entitled to do so. For students requesting assistance, however, the following

rules will be in effect. First, traditional forms of financial aid will continue to be available, on the same basis as at present, to help students to meet University charges up to the amount of University charges for the academic year 1970-71. Second, Yale will not make available any form of traditional financial aid to cover the increases in University charges. Third, a student will be permitted to enter a Deferment and Repayment Contract with respect to (1) any fraction of the increases ("Additional Amounts") he chooses (provided that the amount chosen is at least $300) and (2) an additional $300 per year.

Yale would enter into a separate Deferment and Repayment Contract with each electing student. The Contract would be drawn in such a way that a single Contract will cover all deferments by a particular student.

A student entering into a Deferment and Repayment Contract will be excused from paying any fraction of the Additional Amounts he chooses (provided that the amount chosen is at least $300). If he elects to defer all of the Additional Amounts, he may also elect to have Yale credit his account with an additional $300 per year. A student entering the College in the Fall of 1971 and electing to defer all of the Additional Amounts incurred in his College years would defer a total of $3,800; a student electing to defer an additional $300 per year would defer a total of $5,000.

Deferment and Repayment Contracts will have the following terms:

(1) Eligibility

The Plan will be available to all full time candidates for degrees in the schools and departments covered except (a) students presently receiving government or other financial aid under the terms of a contract which does not permit tuition charges to them to exceed the amount of such aid, and (b) students who are not citizens of the United States and have not been admitted to the United States as permanent immigrants. As to these foreign students Yale has concluded that problems of collection preclude application of the Plan to students who are very likely to reside abroad after graduation.

A student will be permitted to defer payment of University charges for each of eight years of study. This will enable most students to obtain the advantages of deferral both for college and for graduate studies. In the case of a student coming to Yale after studying at another institution, years spent at the other institution will be subtracted from the student's eight years of eligibility at Yale.

(2) Payments Required

In each year, each participant will be required to make one of the following two payments, whichever is greater:

(a) Minimum Payments

Each student who enters into a Deferment and Repayment Contract will be required to pay,

in each calendar year of his Payment Term (as defined below), a Minimum Payment of $29 for each $1,000 deferred. Yale will in its discretion waive the Minimum Payment due in any year for a student who demonstrates to Yale's satisfaction that such payment would impose an extraordinary hardship.

(b) Percentage Payments

Each Participant will be required to make a Percentage Payment, in each year of his Payment Term, equal to 4/10 of 1% of his Repayment Base (as defined below), for that year for each $1,000 deferred.

(3) Payment Term

Each Participant's Payment Term will begin with the calendar year following the year in which he ceases to be a full-time candidate for a degree at any institution of higher learning. For this purpose, a student at Yale College who elects to interrupt his studies for a period of one academic year or less and who declares his expectation to return will be considered a full-time candidate for a degree during that academic year.

Except as provided in paragraphs (a), (b), (c) and (d) below, each Participant's Payment Term will continue for a period of 35 calendar years from and including the first year of his Payment Term.

(a) Interruptions

A Participant's Payment Term will not

include any year during at least eight months of which he

(i) is a full-time candidate for a degree at any institution of higher learning; or

(ii) is, in the opinion of a licensed physician, totally disabled as that term is defined for purposes of any program of disability benefits then provided by the United States Government.

(b) Death or Retirement

A participant's Payment Term will terminate at the end of the calendar year of his death, or at the end of the calendar year during which he has both (i) attained the age of 65 and (ii) ceased to pursue full-time gainful employment.

(c) Individual Termination

Each Participant may elect to terminate his Payment Term whenever the sum of his Minimum Payments and Percentage Payments equals the sum of (i) 150% of the principal amount he deferred plus (ii) interest, compounded annually to the date of his last payment, at the Contract Interest Rate (as defined below), on 150% of the amount he deferred. The Participant's annual payments will be credited against the balance in his Individual Termination account. A student may elect to terminate his obligation at any time by making a payment that brings his total payments to the amount required.

(d) A Participant may terminate his obligation at any time prior to six months before graduation from any school whose tuition he has elected to postpone by payment to the University by 100% of the amount deferred by the student plus interest thereon compounded annually at the contract interest rate.

(e) Group Termination

Every Participant will be part of a Deferment and Repayment Group. Each Group will consist of all Participants, in all departments of the University, whose Payment Terms begin in the same calendar year. The obligation of each member of a Group to make annual payments will terminate with the calendar year in which the total payments by all members of the Group (including repayments of principal not yet made) equal the sum of the amount deferred by all members of the Group Termination, at the Contract Interest Rate (as defined below), on the amount deferred by all members of the Group.

(4) Repayment Base

Each Participant's Repayment Base for a particular calendar year will be computed on the basis of (i) his or her Adjusted Gross Income, or (ii) if he is married, on the basis of his or her separate income, or one-half of the [redacted] joint income, whichever is higher. An individual's Adjusted Gross Income shall be the amount reported as Adjusted Gross Income on his Federal Income Tax Return for the year. The Deferment and Repayment Contract will, however, make

provision for altering the Participant's obligation in the event that the definition of Adjusted Gross Income in the Internal Revenue Code is significantly modified in the future.

(5) Contract Interest Rate

A Contract Interest Rate will be based on Yale's actual costs. The Contract Interest Rate will be at a level calculated to cover (a) the average rate of interest to be paid or accrued by Yale on all funds borrowed externally in accordance with the external borrowing provisions of the Tuition Postponement Option, plus (b) one percent to cover Yale's cost of administering the Plan. When Yale's actual costs of borrowing and allowance for administration for any Group has been recovered, Yale will terminate the Group obligation at an earlier date than thirty-five years.

(6) Insurance

The Plan will include insurance against the death or disability of individual students. The Contract Interest Rate would include the cost of insurance premiums. The insurance would pay benefits to Yale on the death or total disability of an individual student. The amount of the benefits would be credited to the deceased student's Repayment Group.

Such insurance will serve two purposes. First, it will protect the Group against a delay in Group Termination resulting from the death of some of its members. Second, insurance would protect Yale against an inadequate flow of repayments

resulting from a catastrophe and will therefore insure at least against deaths or disabilities caused by a catastrophe, and against those resulting from other causes as well.

(7) Reporting and Payment Procedure

Each Participant will be required to report his Repayment Base semiannually to Yale. The first report will be due on October 30 of the year for which the report is made. The second report will be due on April 30 of the following year. Each Participant would be required by contract personally to certify his adjusted gross income (or other repayment base) annually to Yale, to report any significant redetermination of his adjusted gross income resulting from amendment of his return on Internal Revenue Service audit, and, upon request from Yale, obtain from the Internal Revenue Service and supply to Yale copies of his Individual Federal Income Tax returns as filed and reports of any adjustments thereof. Failure to comply with such a request will be a default pursuant to paragraph (8) below.

With his first semiannual report for the year, the student will be required to pay to Yale one-half of his estimated obligation for the year. With his second report, the student will be required to pay the balance of his obligation for the year.

Each Participant will be liable for the accurate calculation of his Repayment Base. To save administrative expense, it is anticipated that calculations of the reported Repayment Base will be investigated and verified only in cases where probable cause exists to suspect a significant error or misrepresentation. Should it later

appear that his Repayment Base was incorrectly reported, the Participant will be liable for the amount of any underpayment to Yale, plus interest thereon at the Contract Interest Rate from time to time. Any overpayment properly established by a student will be credited against his later obligations.

(8) Defaults

Any Participant will be permitted, upon his written request making a reasonable showing of hardship, to postpone any semiannual payment for any period deemed by the University to be reasonable. The Participant will, however, be required to report the amount due in the usual manner, and any postponed payment will accrue interest at the Contract Interest Rate.

In the event any Participant fails to make a semiannual payment when due, or pays less than the amount of his obligation, the underpayment will accrue interest at the Contract Rate. Yale will send written notice to the Participant requesting payment in full. Ninety days after the date such notice is sent, Yale will have the right to sue the Participant, in the courts of the State of Connecticut or any other court of competent jurisdiction, for the amount of the underpayment.

In the event any unexcused payment has remained wholly or partially unpaid for six months after written notice has been sent to the Participant, commission of an act of bankruptcy, the filing of a bankruptcy petition, or a refusal or failure to supply tax information

requested by Yale pursuant to paragraph B (7) above, Yale shall have the right to declare a default. Upon any such declaration of default, the Participant shall be liable to pay to Yale an amount equal to 150% of the amount originally deferred, plus interest at the Contract Interest Rate compounded annually thereon, minus the sum of his previous payments and interest at the Contract Interest Rate thereon.

(9) Minority

In the case of a student who is a minor at the time of his first deferment, the Deferment and Repayment Contract will also be signed by his parent or guardian. Upon reaching twenty-one, the student will be asked to ratify the contract.

If the student fails to ratify the Contract, then on June 30 of the first year of his Payment Term which falls after the year in which the student reached twenty-one the parent or guardian will be liable to pay to the University an amount equal to 100% of the amount deferred by the student, plus interest thereon compounded annually at the Contract Interest Rate. A student who ratifies at age twenty-one will also have an option to discharge his future liability by an equivalent payment. Any such payment will absolve both the parent or guardian and the student of any further obligation under the Contract.

(10) Treatment of Program Data

Each Deferment and Repayment Contract will provide that income and other data supplied by the

Participant will be available only to the Yale personnel administering the program and to any successor in interest to Yale's rights under the Contract, and not to other Yale personnel, class agents, or other persons generally. Yale and any successor will be obligated to keep this information confidential except as disclosure may be necessary in legal proceedings to enforce any obligation.

(11) Negotiability of Contract

Although Yale does not presently plan to pledge or negotiate student contracts, it will have the right to do so. The primary purpose of this right is to make it possible to merge the Yale program into a larger privately or publicly established educational investment program.

(12) Periodic Surveys

Each Deferment and Repayment Contract will provide that Yale will have the right to circulate questionnaires among all participants in the Plan in order to evaluate its operation.

C. Allocation of Repayments Between Principal and Interest: Deductibility of Interest

It is our opinion that the Deferment and Repayment Contracts may allocate each payment between principal and interest in any reasonable manner, so long as the formula chosen insures repayment of the entire principal amount; and it is our opinion that amounts allocated to interest in accordance with such a formula will, under present law, be deductible for federal income tax

purposes.

One possible formula (which is subject to further perfection) is as follows:

(a) In the case of each Participant, for each $1,000 he deferred, $29 of each annual payment will be allocated to principal until the amounts allocated to principal equal the entire amount he deferred.

(b) In the case of each student, any amount paid in any year in excess of $29 per $1,000 deferred will be allocated to interest until the student has paid previously accrued and current interest, at the Contract Rate, on his principal amount.

(c) Thereafter, in the case of each student, all payments will be allocated to principal until the entire principal amount deferred by the student has been repaid.

(d) Thereafter, all amounts will be allocated to interest on the principal obligations of other students in the Group.

(e) Upon Group termination, the obligation of each Participant who has not completed repayment of principal will continue until principal has been repaid.